

**FIRST STEP HOUSE, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2009 and 2008**

FIRST STEP HOUSE, INC.

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# ► Lake, Hill & Myers

A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITORS' REPORT

December 28, 2009

To the Board of Directors and Management of  
First Step House, Inc.

We have audited the accompanying statement of financial position of First Step House, Inc. (a nonprofit organization) as of June 30, 2009 and 2008 and the related statements of activities and change in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Step House, Inc. as of June 30, 2009 and 2008, and the change in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2009 on our consideration of First Step House Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Lake, Hill & Myers

FIRST STEP HOUSE, INC.  
STATEMENT OF FINANCIAL POSITION

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2009</u>	<u>2008</u>
Current assets:		
Cash	\$ 584,162	\$ 270,198
Grants and contracts receivable, net	291,484	356,825
Other receivables	8,498	14,345
Prepaid expenses	25,777	6,700
Deposits	<u>1,088</u>	<u>1,088</u>
Total current assets	<u>911,009</u>	<u>649,156</u>
Property and equipment, net	<u>910,676</u>	<u>966,573</u>
	<u>\$1,821,685</u>	<u>\$1,615,729</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 51,380	\$ 23,423
Accrued expenses	164,488	134,488
Current portion of long-term debt	<u>26,691</u>	<u>25,174</u>
Total current liabilities	<u>242,559</u>	<u>183,085</u>
Long-term liabilities:		
Long-term debt, less current portion	<u>657,521</u>	<u>683,692</u>
Total long-term liabilities	<u>657,521</u>	<u>683,692</u>
Net assets:		
Unrestricted	921,605	748,952
Temporarily Restricted	<u>-</u>	<u>-</u>
Total net assets	<u>921,605</u>	<u>748,952</u>
	<u>\$1,821,685</u>	<u>\$1,615,729</u>

See notes to financial statements.

FIRST STEP HOUSE, INC.  
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Government grants and contracts	\$ -	\$ 2,339,708	\$2,339,708
Public support	-	60,053	60,053
Program income – client fees	277,248	-	277,248
In-kind donations	-	178,232	178,232
Interest income	-	2,094	2,094
Other income	3,912	-	3,912
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>2,580,087</u>	<u>(2,580,087)</u>	<u>-</u>
Total revenue	<u>2,861,247</u>	<u>-</u>	<u>2,861,247</u>
Expenses:			
Alcohol and drug rehabilitation	<u>2,300,464</u>	<u>-</u>	<u>2,300,464</u>
Total program services	<u>2,300,464</u>	<u>-</u>	<u>2,300,464</u>
Management and general	226,605	-	226,605
Fundraising	<u>161,525</u>	<u>-</u>	<u>161,525</u>
Total supporting services	<u>388,130</u>	<u>-</u>	<u>388,130</u>
Total expenses	<u>2,688,594</u>	<u>-</u>	<u>2,688,594</u>
Change in net assets	172,653	-	172,653
Net assets, June 30, 2008	<u>748,952</u>	<u>-</u>	<u>748,952</u>
Net assets, June 30, 2009	<u>\$ 921,605</u>	<u>\$ -</u>	<u>\$ 921,605</u>

See notes to financial statements.

FIRST STEP HOUSE, INC.  
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
YEAR ENDED JUNE 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Government grants	\$ -	\$ 2,078,872	\$2,078,872
Public support	-	53,117	53,117
Program income – client fees	263,889	-	263,889
In-kind donations	-	148,046	148,046
Interest income	-	7,061	7,061
Other income	2,756	-	2,756
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>2,287,096</u>	<u>(2,287,096)</u>	<u>-</u>
Total revenue	<u>2,553,741</u>	<u>-</u>	<u>2,553,741</u>
Expenses:			
Alcohol and drug rehabilitation	<u>2,230,808</u>	<u>-</u>	<u>2,230,808</u>
Total program services	<u>2,230,808</u>	<u>-</u>	<u>2,230,808</u>
Management and general	221,958	-	221,958
Fundraising	<u>155,683</u>	<u>-</u>	<u>155,683</u>
Total supporting services	<u>377,641</u>	<u>-</u>	<u>377,641</u>
Total expenses	<u>2,608,449</u>	<u>-</u>	<u>2,608,449</u>
Change in net assets	(54,708)	-	(54,708)
Net assets, June 30, 2007	<u>803,660</u>	<u>-</u>	<u>803,660</u>
Net assets, June 30, 2008	<u>\$ 748,952</u>	<u>\$ -</u>	<u>\$ 748,952</u>

See notes to financial statements.

FIRST STEP HOUSE, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2009

	Program services expenses	Supporting services expenses			
	Alcohol and drug rehabilitation	Management and general	Fundraising	Total	Total expenses
Personnel	\$ 1,566,067	\$ 185,643	\$ 152,323	\$ 337,966	\$ 1,904,033
Contract services	33,989	3,362	-	3,362	37,351
Food	252,246	7,801	-	7,801	260,047
House and kitchen supplies	73,160	-	-	-	73,160
House repairs and maintenance	38,654	3,823	-	3,823	42,477
Utilities	56,863	5,624	-	5,624	62,487
Insurance	23,786	2,353	-	2,353	26,139
Office supplies	15,322	1,816	1,490	3,306	18,628
Interest	37,552	-	-	-	37,552
Travel and training	16,174	1,600	-	1,600	17,774
Miscellaneous	60,166	7,132	5,852	12,984	73,150
Telephone	19,122	2,267	1,860	4,127	23,249
Rent	33,672	-	-	-	33,672
Recreation for residents	21,272	-	-	-	21,272
Depreciation	52,419	5,184	-	5,184	57,603
Total Expenses	<u>\$ 2,300,464</u>	<u>\$ 226,605</u>	<u>\$ 161,525</u>	<u>\$ 388,130</u>	<u>\$ 2,688,594</u>

See notes to financial statements

FIRST STEP HOUSE, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2008

	Program services expense	Supporting services expense			
	Alcohol and drug rehabilitation	Management and general	Fundraising	Total	Total expenses
Personnel	\$ 1,510,816	\$ 179,094	\$ 146,949	\$ 326,043	\$1,836,859
Contract services	50,053	4,950	-	4,950	55,003
Food	219,102	6,776	-	6,776	225,878
House and kitchen supplies	63,413	-	-	-	63,413
House repairs and maintenance	46,260	4,575	-	4,575	50,835
Utilities	57,849	5,721	-	5,721	63,570
Insurance	23,333	2,308	-	2,308	25,641
Office supplies	15,973	1,893	1,554	3,447	19,420
Interest	42,091	-	-	-	42,091
Travel and training	25,044	2,477	-	2,477	27,521
Miscellaneous	56,542	6,703	5,500	12,203	68,745
Telephone	17,272	2,048	1,680	3,728	21,000
Rent	32,976	-	-	-	32,976
Recreation for residents	15,358	-	-	-	15,358
Depreciation	54,726	5,413	-	5,413	60,139
Total Expenses	<u>\$ 2,230,808</u>	<u>\$ 221,958</u>	<u>\$ 155,683</u>	<u>\$ 377,641</u>	<u>\$2,608,449</u>

See notes to financial statements



FIRST STEP HOUSE, INC.  
STATEMENT OF CASH FLOWS

	<u>Year ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash received from contributions, government contracts and clients	\$ 2,746,262	\$ 2,225,006
Interest received	2,094	7,061
Cash paid to vendors and employees	(2,370,480)	(2,396,094)
Interest paid	<u>(37,552)</u>	<u>(43,695)</u>
Net cash provided by (used in) operating activities	<u>340,324</u>	<u>(207,722)</u>
Cash flows from investing activities:		
Increase in property and equipment	<u>(1,706)</u>	<u>(32,246)</u>
Net cash used in investing activities	<u>(1,706)</u>	<u>(32,246)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	<u>(24,654)</u>	<u>(23,154)</u>
Net cash used in financing activities	<u>(24,654)</u>	<u>(23,154)</u>
Net increase (decrease) in cash	313,964	(263,122)
Cash at beginning of year	<u>270,198</u>	<u>533,320</u>
Cash at end of year	<u>\$ 584,162</u>	<u>\$ 270,198</u>

(continued)

See notes to financial statements.

FIRST STEP HOUSE, INC.  
STATEMENT OF CASH FLOWS  
(continued)

	<u>Year ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$172,653	\$ (54,708)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	57,603	60,139
Change in assets and liabilities:		
Decrease (increase) in grants receivable	65,341	(173,628)
Decrease in other receivables	5,847	222
Increase in prepaid expenses	(19,077)	(6,700)
Increase (decrease) in accounts payable	27,957	(25,428)
Increase (decrease) in accrued expenses	<u>30,000</u>	<u>(7,619)</u>
Net cash provided by (used in) operating activities	<u>\$340,324</u>	<u>\$(207,722)</u>

Schedule of non-cash investing and financing activities:

None.

FIRST STEP HOUSE, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Operational Purpose

First Step House, Inc. (First Step) is a nonprofit corporation organized under the laws of the State of Utah on December 14, 1958. The Organization is a residential substance abuse treatment center providing alcohol and drug rehabilitation services. The Organization maintains additional facilities (apartment complexes) for graduates of the treatment program in order to provide them with a sober living environment, and also provides outpatient services. The Organization receives its funding from government grants, client fees, food stamps, and private/individual donations.

First Step's principal program is as follows:

Alcohol and drug rehabilitation - to help low/no income, often-homeless individuals, achieve long-term recovery from the dysfunctional effects of substance abuse and to return to society as meaningfully employed and responsible individuals.

Financial Statement Presentation

The accompanying financial statements of First Step have been prepared using the accrual method of accounting and accordingly reflect all significant receivables, payables and other liabilities.

First Step reports information regarding its financial position and activities according to the following three classes of net assets:

Unrestricted - accounts for unrestricted assets (net of related liabilities) available for support of the Organization's operations. Assets designated by the Board of Directors for a specific purpose also are accounted for in this fund.

Temporarily Restricted - accounts for resources currently available for use, but expendable only for purposes specified by the donor.

Permanently Restricted - accounts for gifts requiring in perpetuity that the principal be invested and the income only be used.

Allowance for Doubtful Accounts

The Organization records an allowance for doubtful accounts based on management's estimate of receivables that are not expected to be collected within one year from the balance sheet date. No allowance for doubtful accounts is provided at June 30, 2009 as management believes all receivables are fully collectible.

### Property and Equipment

Property and equipment are recorded at acquisition cost or, where donated, at estimated market value at the date of the donation. Depreciation is computed using the straight-line method based on estimated useful lives ranging from 5 to 40 years. Expenditures for repairs and maintenance are charged to expense as incurred.

### Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents are defined as cash on hand and highly liquid investments with original maturities of three months or less.

### Donated Services

Amounts for donated services are reflected in the financial statements if the services create or enhance nonfinancial assets or if First Step would be required to pay for the services if not donated. No amounts have been reflected in the financial statements for donated services. However, many individuals volunteer their time and perform a variety of tasks that assist First Step in completing the goals of its program.

### Contributions

Contributions are recorded as revenue when cash is received or First Step receives an unconditional promise to give from the donor. All contributions are available for unrestricted use unless specifically restricted by the donor.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

### Donated Materials

Vendors contribute substantial amounts of materials toward the fulfillment of the Organization's programs. To the extent these contributions satisfy the criteria for recognition under generally accepted accounting principles, they are recognized as contributions and expenses in the statement of activities and change in net assets or are capitalized in the statement of financial position. The donated amounts recognized are generally recorded at the fair market value represented on the vendor invoice, or an estimated fair value as can best be approximated for similar items or services.

Donated materials total \$178,232 and \$148,046 during the years ended June 30, 2009 and 2008, and represent primarily the donation of food and beverages to provide meals to the recipients of First Step House, Inc. services.

### Government Funding

Funding from all government sources is considered to be unrestricted as long as the amounts are expended under contract guidelines and is expended in the period for which it is contracted.

### Income Taxes

The Internal Revenue Service has granted First Step an exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code. The State of Utah has granted a similar exemption to the Organization. Accordingly, no taxes have been provided for in the financial statements. The Organization believes it does not have, and has not recorded a liability for any uncertain tax positions.

### Functional Expenses

First Step allocates its expenses on a functional basis among its program and supporting services. Expenses that can be identified with First Step's program or supporting services are directly classified to program or services. Other expenses that are common to several functions are allocated on a reasonable and systematic basis.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### Reclassifications

Certain amounts from the prior year have been reclassified in the current year presentation for financial statement reporting purposes.

### Subsequent events

Management has made an evaluation of subsequent events through December 28, 2009, the date on which the financial statements were available to be issued.

### NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE:

Grants and contracts receivable consist of the following:

	<u>June 30,</u>	
	<u>2009</u>	<u>2008</u>
Salt Lake County	\$136,519	\$157,703
Veterans Administration	142,091	178,224
Medicaid	3,541	28,726
Volunteers of America	9,333	4,667
Ryan White	-	2,901
Utah County	-	2,604
	<u>291,484</u>	<u>374,825</u>
Less: Allowance for Doubtful Accounts	<u>-</u>	<u>(18,000)</u>
	<u>\$291,484</u>	<u>\$356,825</u>

### NOTE 3 - PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	<u>June 30,</u>	
	<u>2009</u>	<u>2008</u>
Land	\$ 248,894	\$ 248,894
Buildings and improvements	1,196,278	1,194,573
Furniture and equipment	240,860	240,860
Vehicles	<u>49,802</u>	<u>49,802</u>
	1,735,834	1,734,129
Less accumulated depreciation	<u>(825,158)</u>	<u>(767,556)</u>
	<u>\$ 910,676</u>	<u>\$ 966,573</u>

### NOTE 4 - LEASE COMMITMENTS:

First Step leases a vehicle under a lease agreement that expires in June, 2011. The van is used to transport clients to various appointments and other First Step activities. During the years ended June 30, 2009 and 2008, lease expense totaled \$9,127 and \$12,091.

First Step leases office space under a month-to-month lease agreement. The office is used to house the Organizations Outpatient Services Department. During the years ended June 30, 2009 and 2008, lease expense totaled \$31,800 and \$30,000.

Future minimum lease commitments under these lease agreements are as follows:

#### Year ending June 30,

2010	\$ 8,991
2011	<u>8,991</u>
	<u>\$17,982</u>

### NOTE 5 - RETIREMENT PLAN:

First Step has established a defined contribution retirement plan (the Plan) for the benefit of its employees. Contributions to the Plan are determined by the Board of Directors. An employee must meet certain eligibility requirements in order to participate in the Plan. During the years ended June 30, 2009 and 2008, First Step did not make any matching contributions to the Plan.

#### NOTE 6 - CONCENTRATIONS:

First Step's cash is held in federally insured bank accounts. At June 30, 2009, the cash balance exceeds the federally insured limit by approximately \$335,000. Management does not believe this represents a material credit risk. During the year ended June 30, 2009, the federal insurance limit was increased to \$250,000 from \$100,000.

The majority of First Step's contract revenues are provided through Salt Lake County and the Veterans Administration. A loss of this support would have a materially adverse effect on First Step.

#### NOTE 7 - LINE OF CREDIT:

First Step maintains an unsecured line of credit agreement with a bank in the amount of \$150,000. The line of credit accrues interest at an interest rate of 1.5 percent plus the bank's "base" rate subject to a floor rate of 5 percent (5 percent at June 30, 2009). At June 30, 2009 and 2008, there was no outstanding balance on the line of credit.

#### NOTE 8 - LONG-TERM DEBT:

Long-term debt consists of the following:

	<u>June 30,</u>	
	<u>2009</u>	<u>2008</u>
Mortgage note payable, monthly principal and interest payments of \$1,810, interest at 6.75 percent, due May 15, 2013, secured by property.	\$194,506	\$202,612
Note payable, monthly principal and interest payments of \$453, interest at 5.00 percent, due April 1, 2016, secured by equipment.	31,326	35,093
Mortgage note payable, monthly principal payments of \$200, non-interest bearing, due October 1, 2027, secured by property.	142,670	145,070
Mortgage note payable, monthly principal and interest payments of \$563, interest at 6.50 percent, due November 10, 2013, secured by property.	63,020	65,537

Mortgage note payable, monthly principal and interest payments of \$804, interest at 6.50 percent, due November 10, 2013, secured by property.

89,910 93,500

Mortgage note payable, monthly principal and interest payments of \$1,346, interest at 7.10 percent, due May 15, 2017, secured by property.

162,780 167,054

Less current portion

684,212 708,866  
(26,691) (25,174)

\$657,521 \$683,692

Future maturities of mortgages payable are as follows:

Year ending June 30,

2010	\$ 26,691
2011	28,312
2012	29,957
2013	187,080
2014	136,786
Thereafter	<u>275,386</u>
	<u>\$684,212</u>

#### NOTE 9 - RELATED PARTY TRANSACTIONS:

A member of First Step House, Inc.'s board of directors is a vice-president with the lender on three of the mortgages payable. At June 30, 2009, the principal balance on these mortgages totals \$510,216.



## **ADDITIONAL INFORMATION**

FIRST STEP HOUSE, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Number</u>	<u>Grant Expenditures</u>
<u>United States Department of Veteran Affairs</u>			
Veterans Administration*	64.024	V660P-4812	126,640
Veterans Administration*	64.024	per diem	144,182
Veterans Administration*	64.024	07R-303UT	206,033
Veterans Administration*	64.024	08-826-HV	<u>165,265</u>
			642,120
<u>United States Department of Housing &amp; Urban Development</u>			
Volunteers of America	14.235	-	<u>56,000</u>
			<u>\$698,120</u>

\* - denotes major program

NOTE A - GENERAL:

The schedule of expenditures of federal awards presents the activity of all federal award programs of First Step House, Inc. (First Step). The First Step reporting entity is defined in Note 1 to First Step's financial statements. All federal financial awards received directly from federal agencies as well as federal financial awards passed through from other government agencies are included on the schedule.

NOTE B - BASIS OF ACCOUNTING:

The accompanying schedule of expenditures of federal awards is presented on an accrual basis of accounting. Grant expenditures are recognized as funds are spent or accrued. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

# ► Lake, Hill & Myers

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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

December 28, 2009

To the Board of Directors and Management of  
First Step House, Inc.

We have audited the financial statements of First Step House, Inc. (a nonprofit organization) as of and for the year ended June 30, 2009, and have issued our report thereon dated December 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered First Step House, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financials statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financials statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether First Step House, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lake, Hill & Myers

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### REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

December 28, 2009

To the Board of Directors and Management of  
First Step House, Inc.

#### Compliance

We have audited the compliance of First Step House, Inc. (a nonprofit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. First Step House, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of First Step House, Inc.'s management. Our responsibility is to express an opinion on First Step House, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about First Step House, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on First Step House, Inc.'s compliance with those requirements.

In our opinion, First Step House, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 09-1.

#### Internal Control Over Compliance

The management of First Step House, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered First

Step House, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 09-1 to be a significant deficiency.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

First Step House, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit First Step House, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Lake, Hill & Myers*

FIRST STEP HOUSE, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2009

Summary of Auditors' Results

- i. The auditor issued an unqualified opinion on the financial statements of the Organization.
- ii. There are no significant deficiencies or material weaknesses in internal control over the financial statements disclosed as a result of the audit of the financial statements.
- iii. The auditor noted no noncompliance which is material to the financial statements of the Organization.
- iv. There are no significant deficiencies or material weaknesses in internal control over major programs disclosed as a result of the audit of the financial statements.
- v. The auditor issued an unqualified opinion on compliance with requirements applicable to each major program.
- vi. The auditor identified one finding reported under the caption of Findings.
- vii. Major programs consist of:

Federal Grantor/Pass-Through Grantor/Program Title		Federal CFDA Number	Expenditures
United States Department of Veteran Affairs:			
Veterans Administration			
Alcohol and Drug Rehabilitation		64.024	\$642,120

- viii. The Organization had one Type A program for the year ended June 30, 2009. The dollar threshold to distinguish Type A and Type B programs was \$300,000. Programs were selected to meet the percentage coverage rule of OMB Circular A-133 paragraph \_\_\_\_\_.520(f).
- ix. The Organization qualifies as a low risk auditee under paragraph .530 of OMB Circular A-133.

(continued)

FIRST STEP HOUSE, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2009

(continued)

**FINDINGS AND QUESTIONED COSTS -  
MAJOR FEDERAL AWARD PROGRAMS AUDIT**

**United States Department of Veterans' Affairs – Veterans Administration Alcohol and Drug  
Rehabilitation, CFDA 64.019**

Ref

**09-1      Funds Received for Services not Provided**

Condition

For fiscal year ending June 30, 2009, the Organization has a Veteran's CTI grant and a Veterans Per Diem grant, both of which include a certain level of supporting social services cost reimbursement related to the Organization's clients. With the combination of these two grants, the Organization determined that \$29,511 was billed and collected during the fiscal year ended June 30, 2009, which represented essentially duplicate billings for the same supporting social services. The Veteran's Per Diem grant should have been reduced for certain costs being reimbursed by the Veteran's CTI grant, and when this double-billing was discovered, the Organization contacted the Veteran's Administration to determine an appropriate resolution of the amount. Amounts were properly billed in connection with the two individual grants, but the two grants included overlapping cost reimbursement of \$29,511.

Criteria

Grants should be carefully reviewed by both the grantor and the grantee to ensure that no grant amounts include reimbursement of services already provided for by another grant.

Effect

The Organization received \$29,511 in its Veteran's Per Diem grant for costs already reimbursed in connection with its Veteran's CTI grant.

Recommendation

The Organization discovered the discrepancy and brought it to the attention of the Veteran's Administration. The Organization and the Veteran's Administration have been communicating regarding the issue and are working on a resolution of the matter. We recommend that the Organization and the Veterans Administration resolve the matter and that future grants be reviewed to ensure that eligible costs are properly reimbursed.



FIRST STEP HOUSE, INC.  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2008

Ref

Finding

There are no prior audit findings.

## ► Lake, Hill & Myers

A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

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### INDEPENDENT ACCOUNTANT'S REPORT ON STATE LEGAL COMPLIANCE

December 28, 2009

To the Board of Directors and Management of  
First Step House, Inc.

We have audited the financial statements of First Step House, Inc., a nonprofit corporation, for the year ended June 30, 2009, and have issued our report thereon dated December 28, 2009. As part of our audit, we have audited First Step House Inc.'s compliance with the requirements of the provider contract determined to be a major State assistance program as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2009. First Step House, Inc. received the following major State assistance program from the State of Utah:

#### Alcohol and Drug Abuse Treatment

Utah Department of Human Services – Passed through from Salt Lake County

The management of First Step House, Inc. is responsible for its compliance with all compliance requirements of the contract identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements of the contract referred to above occurred. An audit includes examining, on a test basis, evidence about First Step House, Inc.'s compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, First Step House, Inc. complied, in all material respects, with the requirements governing types of services allowed or unallowed; matching, level of effort, or earmarking; and special tests and provisions that are applicable to its major State assistance program for the year ended June 30, 2009.

*Lake, Hill & Myers*